Market Segmentation

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Background

★ Markets are heterogeneous: consumer demand varies on the basis of demographic, socio-economic, lifestyle and other factors

★ In order to be competitive, firms must account for market heterogeneity

★ The Internet has exacerbated market fragmentation, with companies able to communicate with and target very small groups and even individuals

Definition of Market Segmentation

Process of dividing an heterogeneous consumer or business market into relatively homogeneous sub-groups of customers (market segments) with similar needs and wants

Definition of Market Segmentation

Aggregation of prospective buyers into groups of segments that have common needs and respond similarly to a marketing action

Purposes of Market Segmentation

Identify promising segments of the market that may be selected or targeted because of expected profit or growth performance
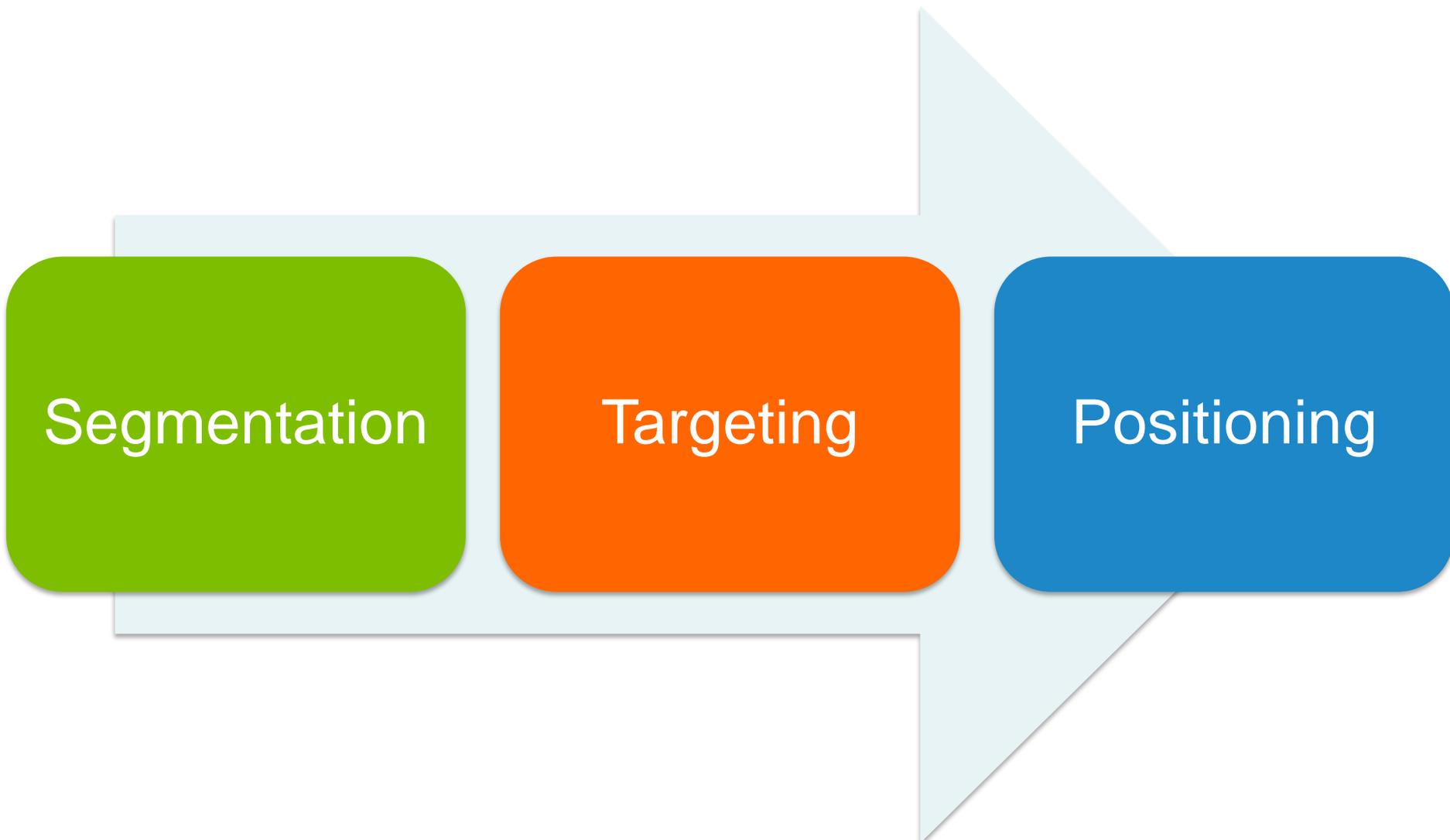
Purposes of Market Segmentation

Develop a better understanding of the needs and purchase motivations of customers in different segments of the market for more effective marketing of products or services

STP Framework for Marketing Planning
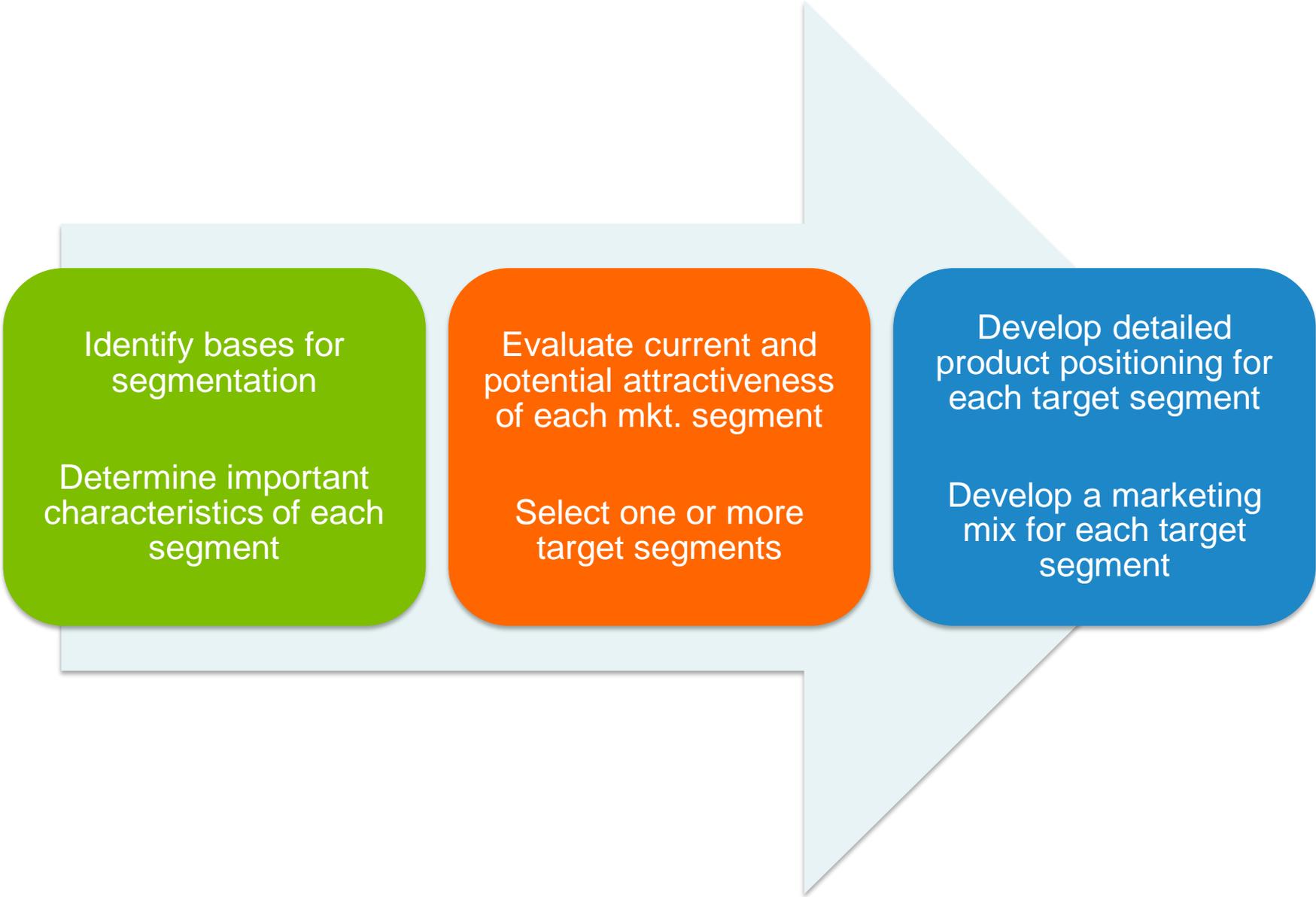
Segmentation

Targeting

Positioning
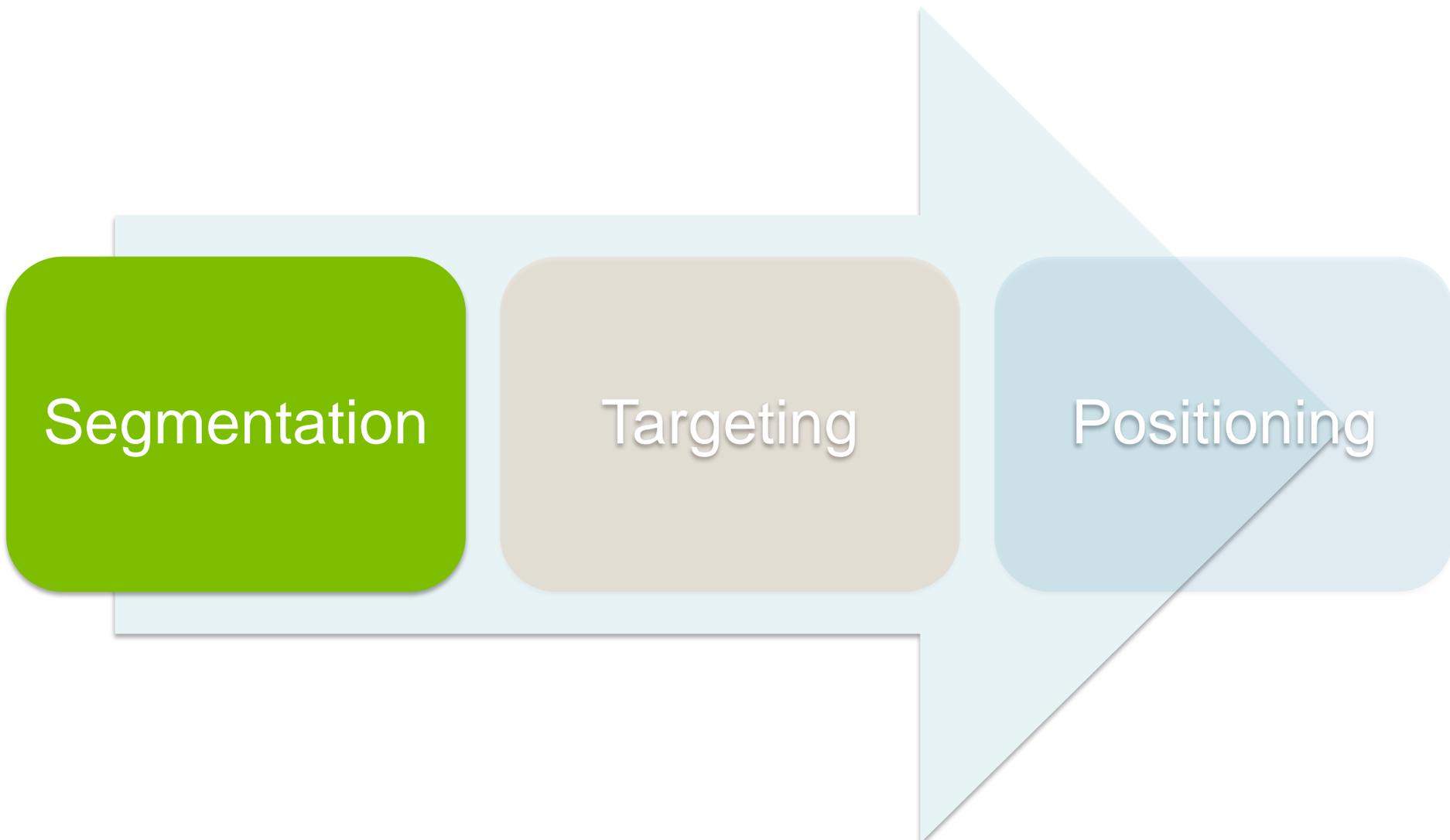
Segmentation

Segmentation → Targeting → Positioning

Types of Segmentation

Businesses selling to businesses (B2B)

Please give examples of B2B
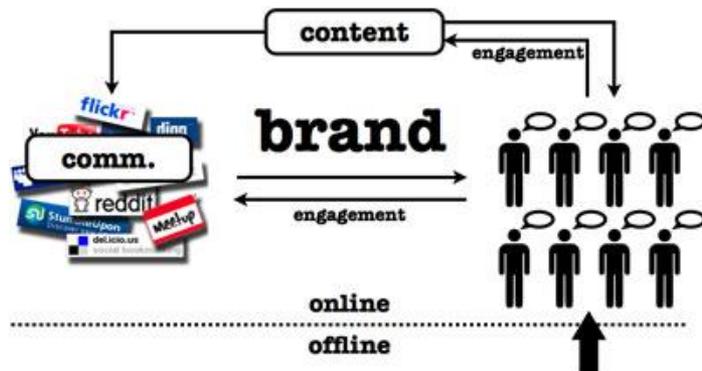
Businesses selling to consumers (B2C)

Bases for Segmentation (B2B)

★ Industry

★ Business Size

★ Business location

★ Business technology

★ Purchasing approach

★ (…)

Bases for Segmentation (B2C)

Demographics

Behavioural

Market Segmentation

Geographic

Psychographic

- ✧ *Internal segment homogeneity*
- ✧ *external segment heterogeneity*

Demographic Segmentation

Quantifiable population characteristics
(e.g. age, gender, income, education, ethnicity, family size)

e.g. YUPPY; MUPPY; DINKS; GLAMS; Empty-nester, Full-nester

Geographic Segmentation

Physical location or region

e.g. Southeast Asia; urban; rural; remote
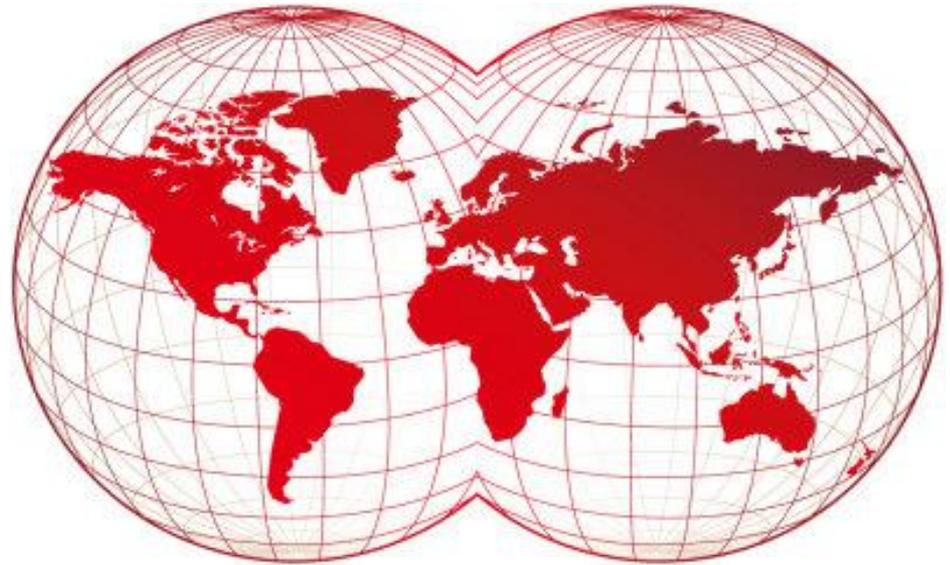
Phsycographics Segmentation

Lifestyle, social or personality characteristics (activities, interests and opinions)

Normally includes basic demographic descriptors)

e.g. Health conscious; style conscious; traditionalists; conservatives; young professionals

Behavioral Segmentation

Purchasing, consumption or usage behavior (e.g. needs-based, benefit-sought, usage occasion, purchase frequency, customer loyalty, buyer readiness)

e.g. Tech-savvy; heavy users; enthusiasts; early adopters; opinion leaders; luxury-seekers; price-conscious; quality-conscious; time-constrained

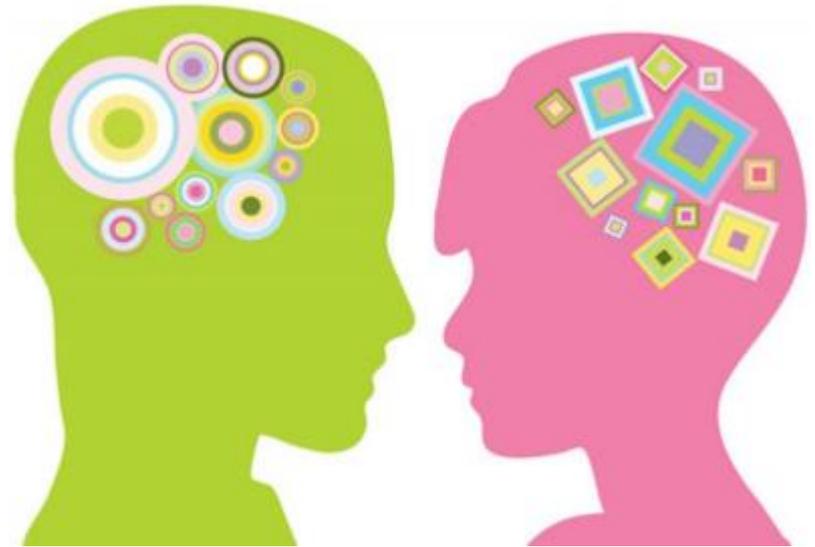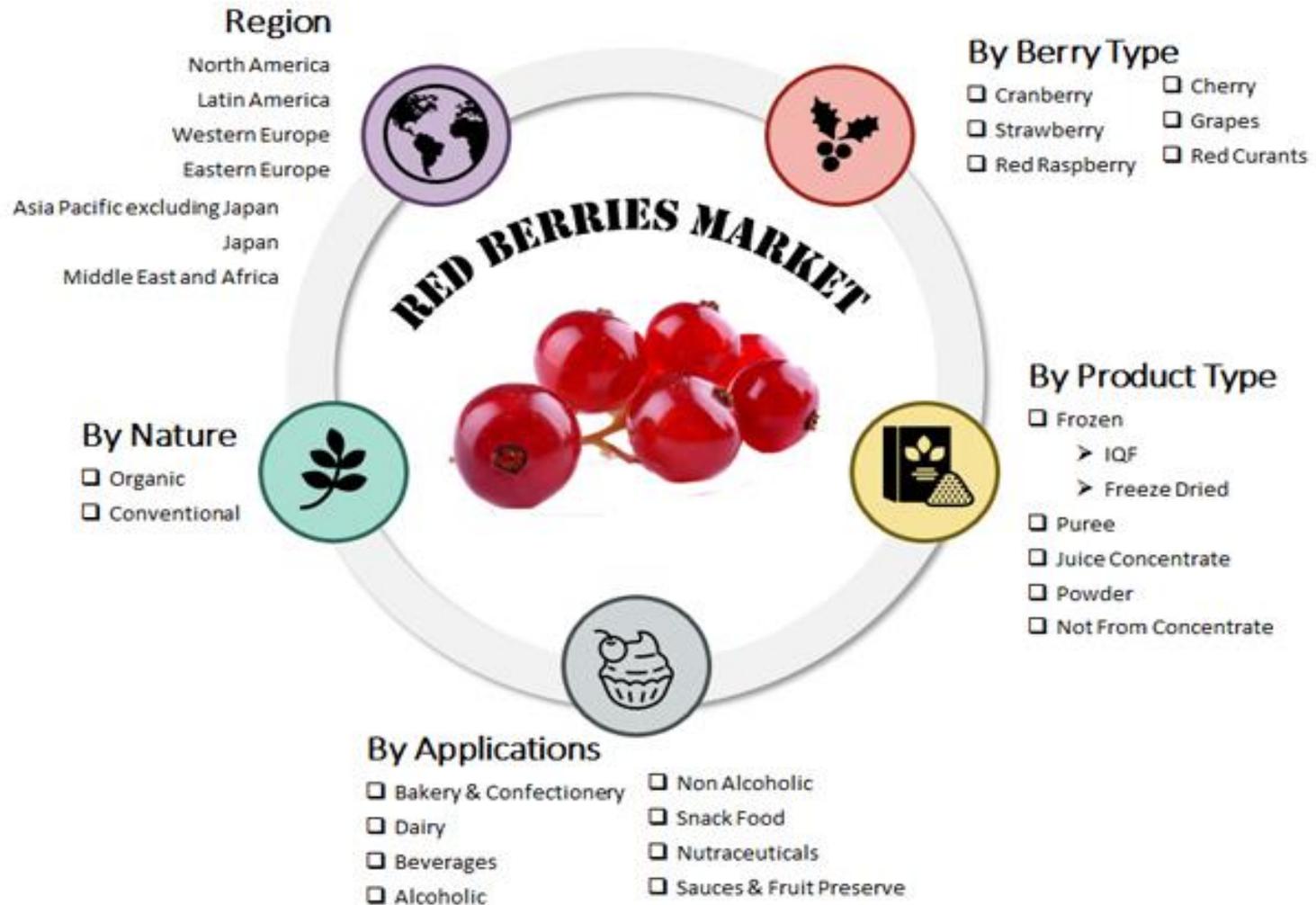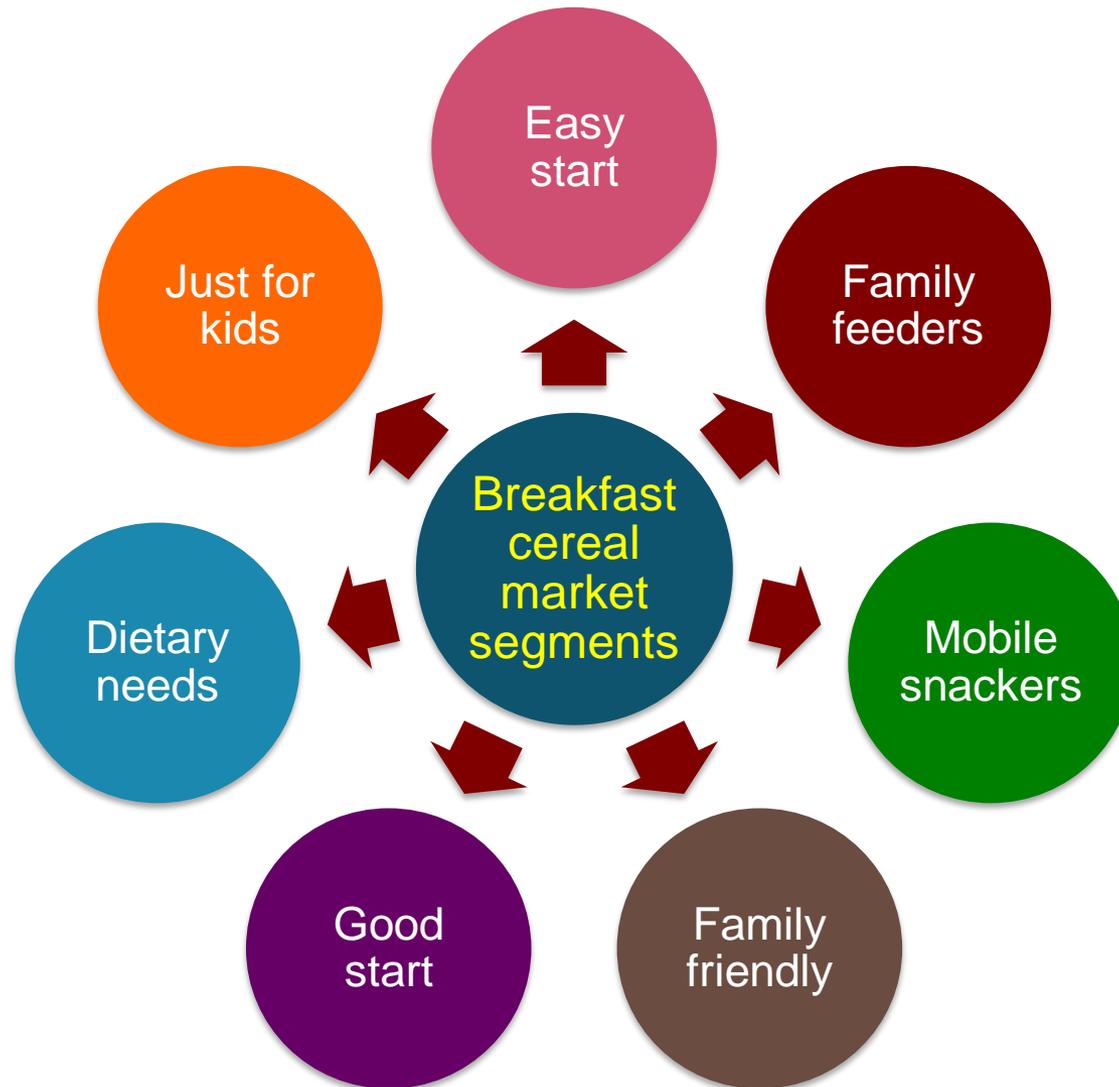| Base for market segmentation	Brief explanation	Typical segments
Demographic	Quantifiable population characteristics (e.g. age, gender, income, education, ethnicity family size).	e.g. YUPPY; MUPPY; DINKS; GLAMS; Empty-nester, Full-nester
Geographic	Physical location or region	e.g. Southeast Asia; urban; rural; remote
Geo-demographic	Combination of geographic and demographic variables	e.g. Rural farmers, urban professionals
Psychographics	Lifestyle, social or personality characteristics (typically includes basic demographic descriptors)	e.g. Health conscious; style conscious; traditionalists; conservatives; young professionals
Behavior	Purchasing, consumption or usage behavior (e.g. needs-based, benefit-sought, usage occasion, purchase frequency, customer loyalty, buyer readiness)	e.g. Tech-savvy; heavy users; enthusiasts; early adopters; opinion leaders; luxury-seekers; price-conscious; quality-conscious; time-constrained

Segmenting the Red Berries Market

Region
North America
Latin America
Western Europe
Eastern Europe
Asia Pacific excluding Japan
Japan
Middle East and Africa

By Berry Type
- Cranberry
- Strawberry
- Red Raspberry
- Cherry
- Grapes
- Red Curants

RED BERRIES MARKET

By Nature
- Organic
- Conventional

By Product Type
- Frozen
  - IQF
  - Freeze Dried
- Puree
- Juice Concentrate
- Powder
- Not From Concentrate

By Applications
- Bakery & Confectionery
- Dairy
- Beverages
- Alcoholic
- Non Alcoholic
- Snack Food
- Nutraceuticals
- Sauces & Fruit Preserve

Segmenting the Breakfast Cereal Market

Segmenting the Car Market
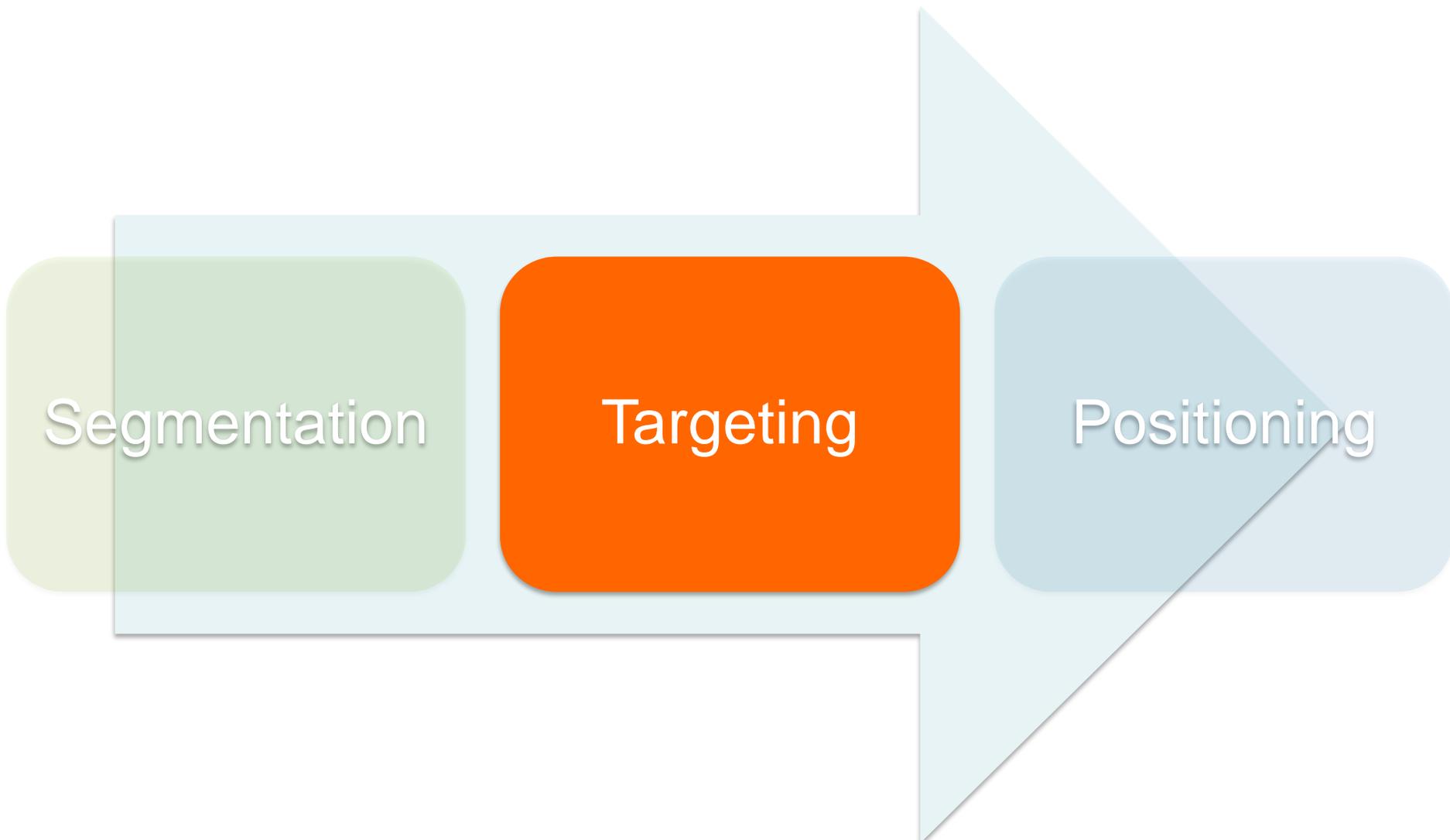
Criteria for Selecting Target Markets

1. Segment size and growth

2. Segment structural attractiveness

3. Company objectives and resources

Segment Size and Growth

★ How large is the market?

★ Is the market segment large enough to be profitable?

★ Is the market segment growing?

★ What are the indications that growth will be sustained in the long term?

★ Is the segment stable over time?

Segment Size

Traditional foodstore sales by segment, 2011
Retail food and nonfood sales were $571 billion in 2011

- Grocery stores, including supermarkets
- Convenience stores
- Specialized stores

Source: U.S. Census Bureau, Annual Retail Trade Report, 2011.

Segment Size

New Segmentation Solution: Food Lifestyle

- 15% — Convenience and Ease
- 28% — Reformed Traditional
- 26% — Variety on a Budget
- 19% — True Foodies
- 13% — Weekend Cooks
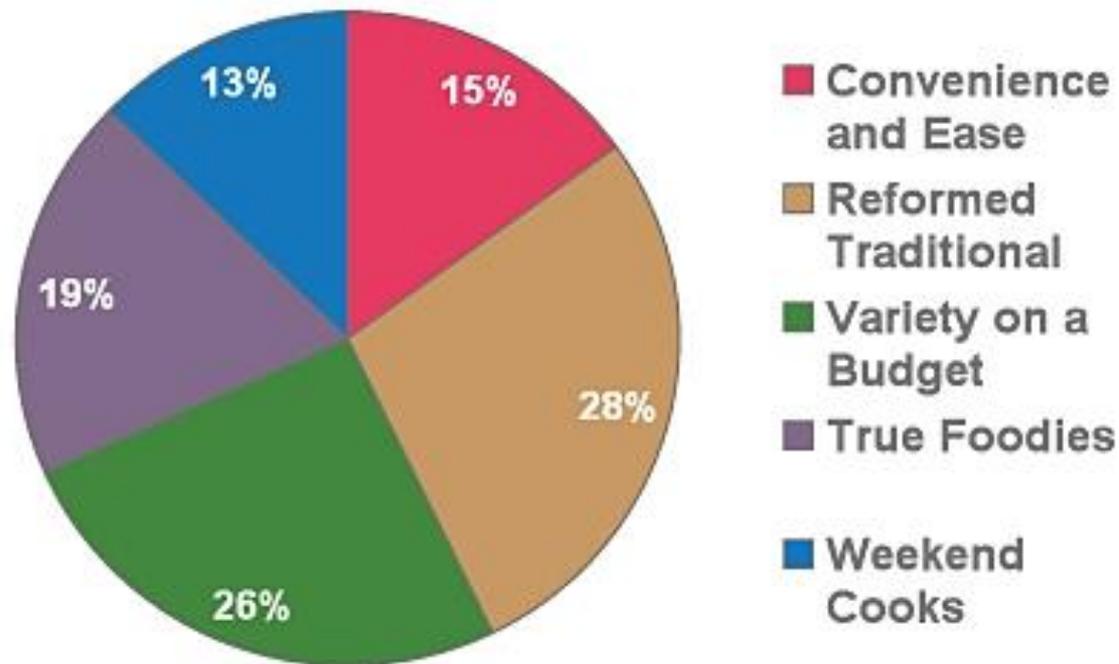
Source: Experian Simmons National Consumer Study/Hispanic Consumer Study Summer 2009 Full Year, Food Lifestyle Segmentation System

Segment Growth

High — **Low** (Market Growth axis)

Low — **High** (Market Attractiveness axis)

Raw Cooked Meat

Raw Fermented Sausages

Others

Dry Meat

Fresh Processed Meat

Cured Meat

Precooked Meat

Fresh processed meat and raw cooked meat segments are anticipated to be the top investment pocket due to increase in demand for ready-to-eat food products.
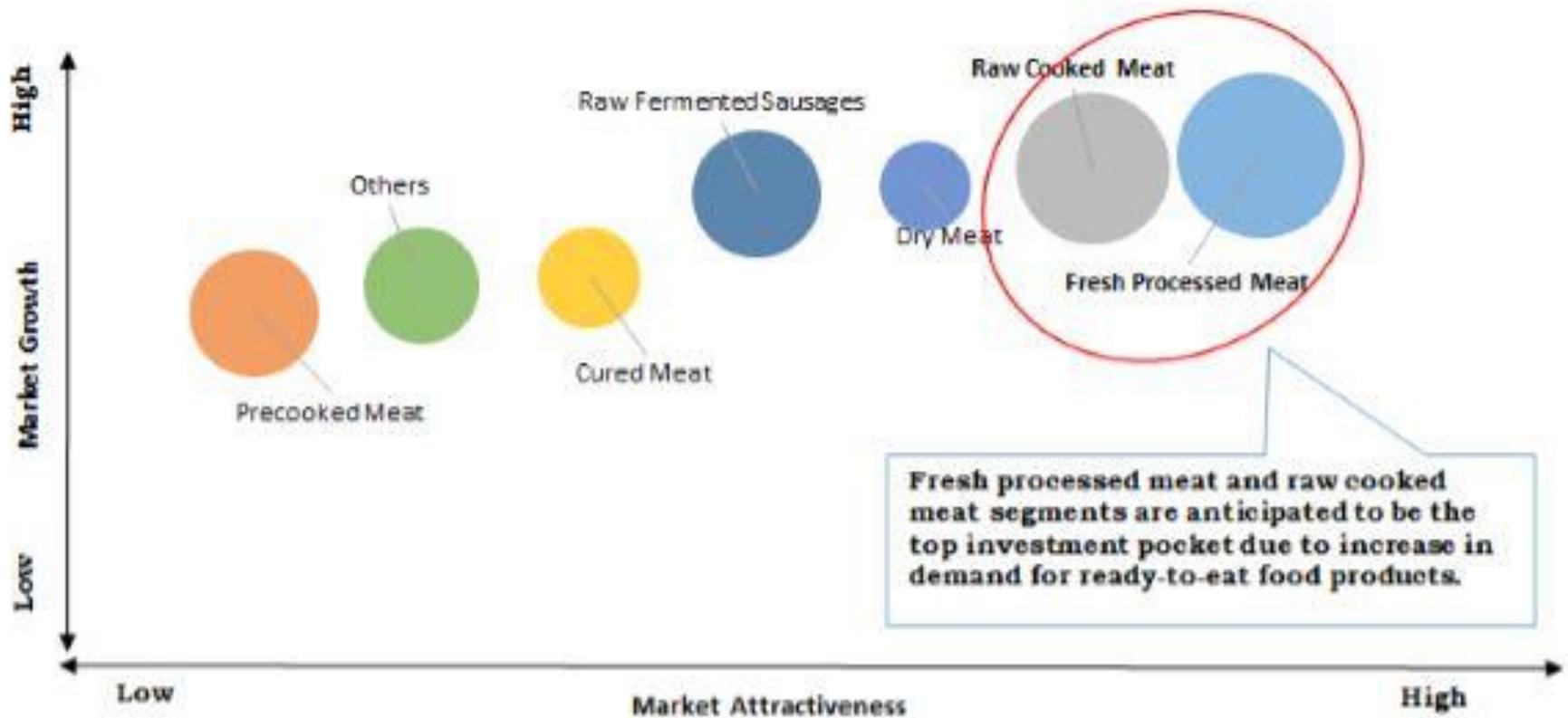
Segment Growth

The channel structure in Turkish retail is changing rapidly.

Grocery retail by channel,
%[1]

CAGR,[2]
2013–18, %

5.3

100% =	₺143 billion[3]	₺177 billion	₺229 billion		

					CAGR
Supermarkets			22.5		6.4
Hypermarkets			3.6		1.1
Discounters			18.1		16.8
Forecourts					10.4
Convenience stores			3.3		24.5
Mom-and-pop stores			50.8		0.8

2006   2013   2018E
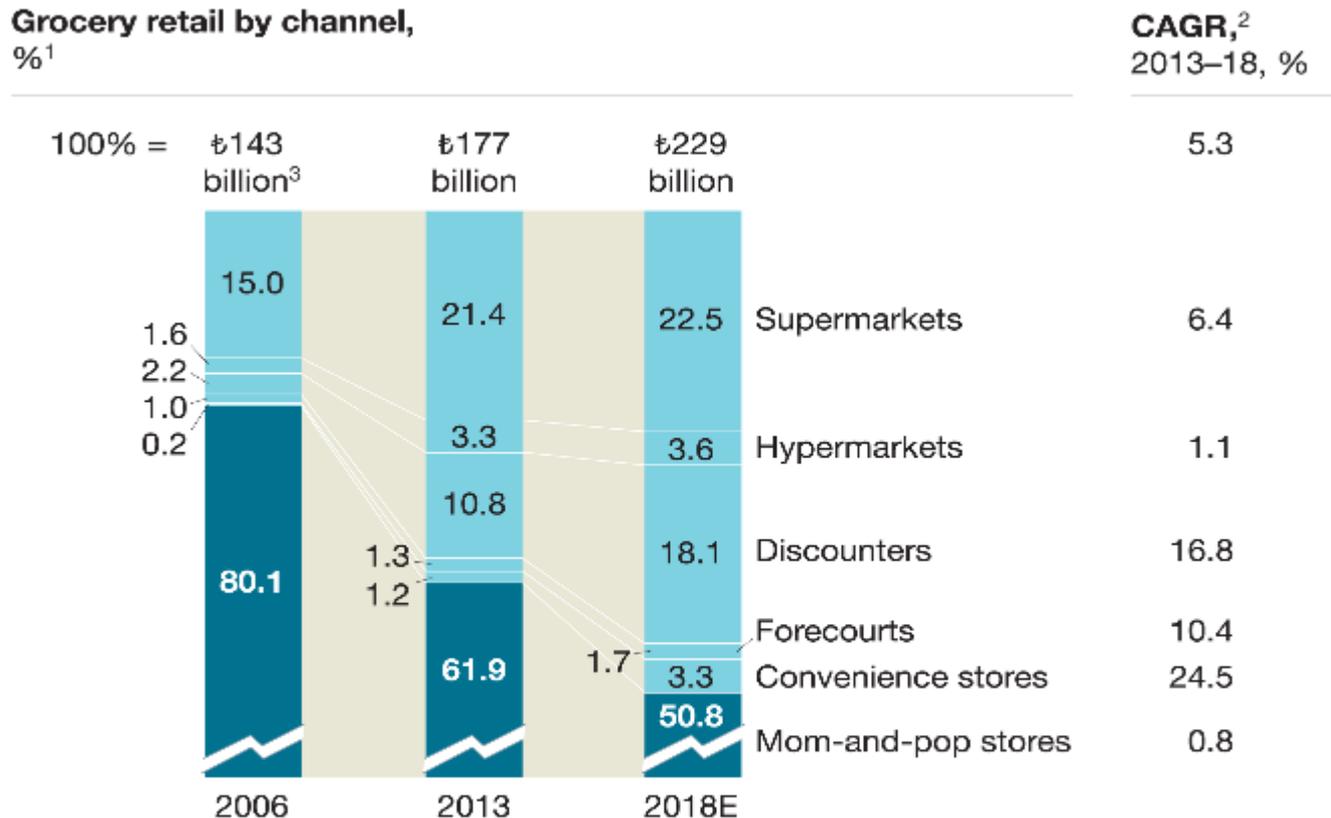
[1]Figures may not sum to 100%, because of rounding.
[2]Compound annual growth rate.
[3]As of Aug 2015, $1.0 = ₺2.8.

Segment Structural Attractiveness

★ To what extent are competitors targeting this market segment?

★ Do buyers have strong bargaining power?

★ Are substitute products available?

★ Can we develop a viable, differentiated position in the segment?

★ How responsible are customers in the segment to the marketing program?

★ Is this market segment reachable and accessible?

Porter's Diamond
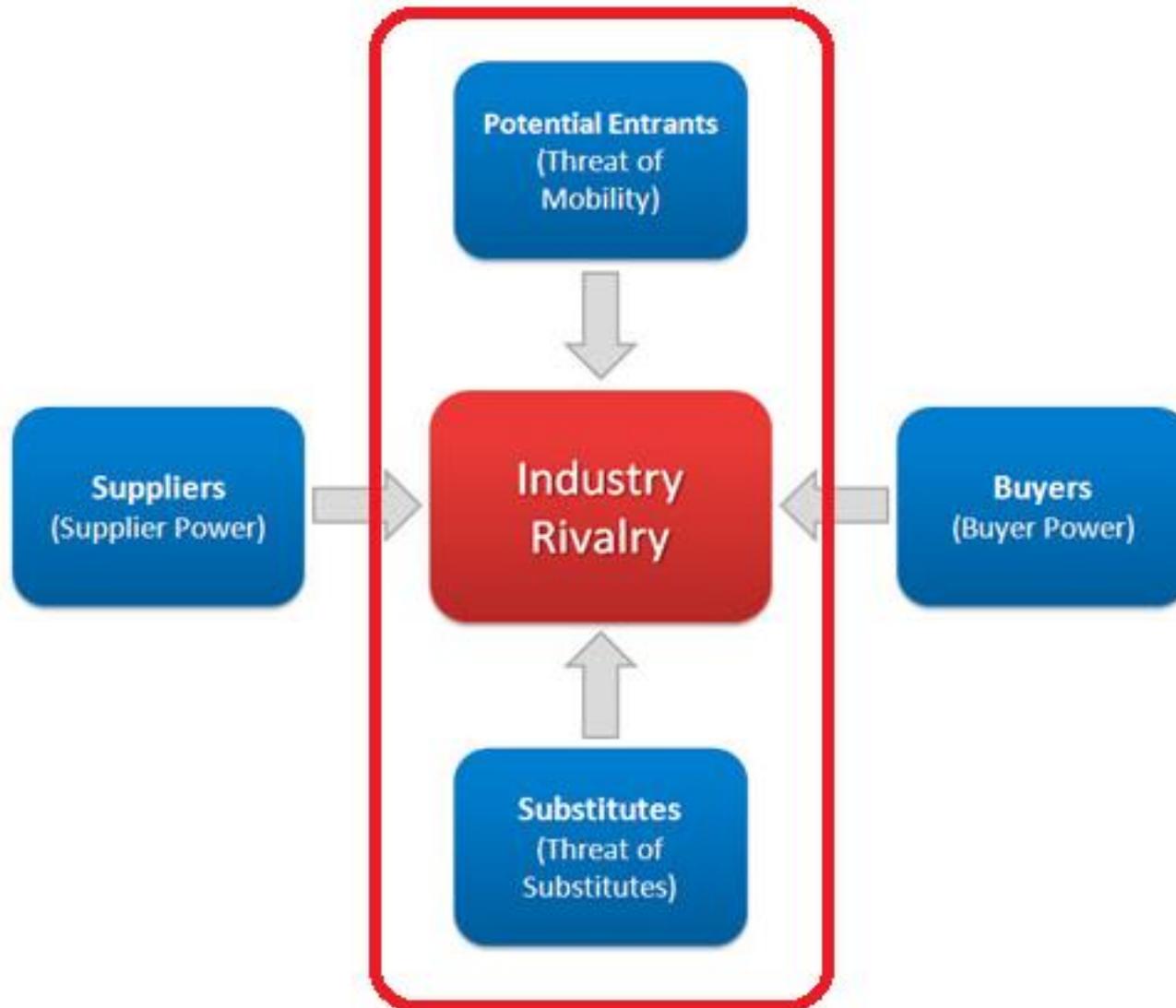
Company Objectives and Resources

★ Is this market segment aligned with our company's operating philosophy?

★ Do we have the resources necessary to enter this market segment?

★ Do we have prior experience with this or similar market segments?

★ Do we have the skills and know-how to enter this segment successfully?

An example from the car industry

LUXURY

gap in market

TRADITIONAL

INNOVATIVE

VALUE

Competitors Brands

Your Brand Current Position

Ideal Brand Position
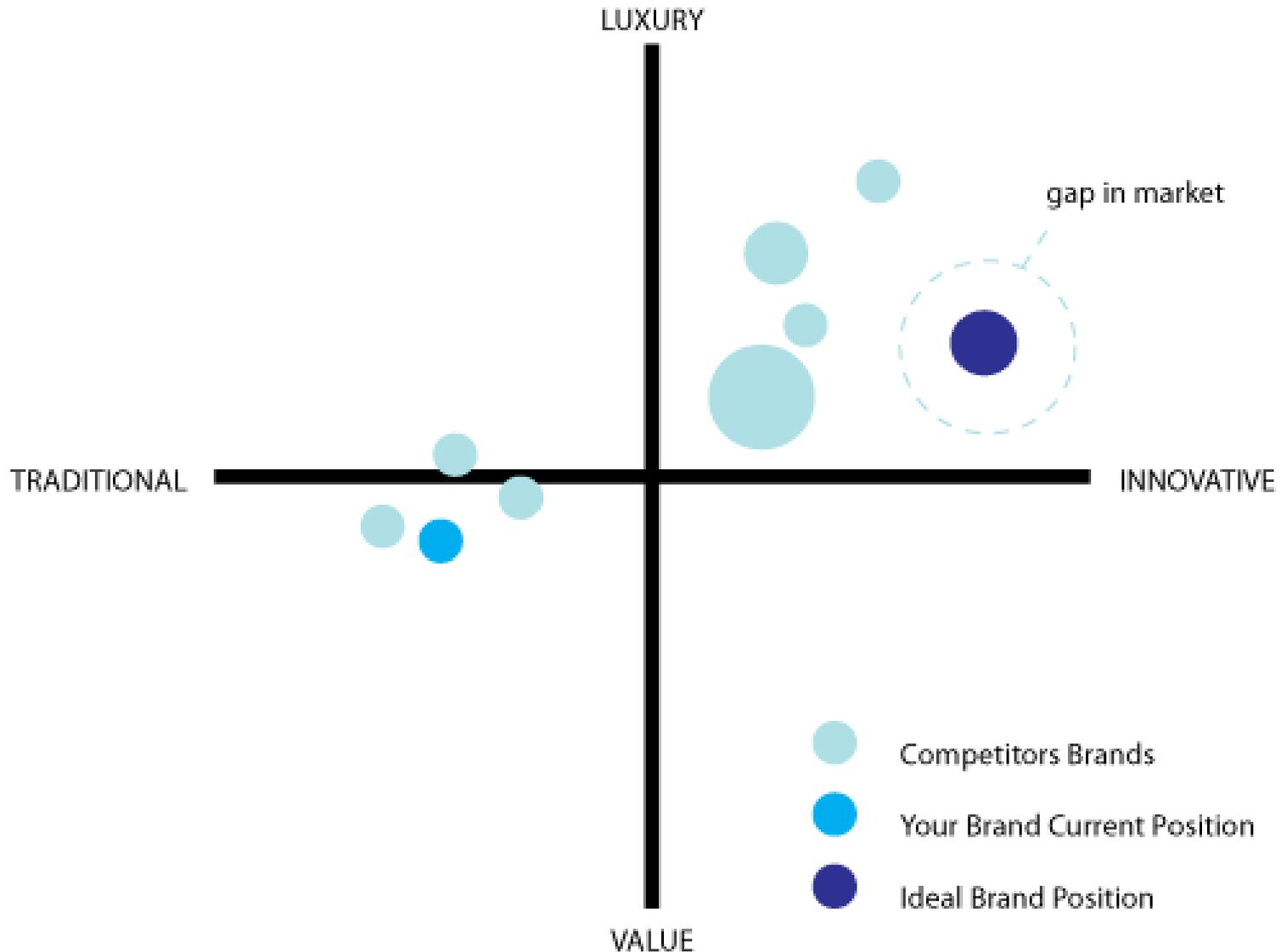
Main Strategic Approaches to Segmentation

Number of segments	Segmentation strategy	
Zero	Undifferentiated strategy	**Mass marketing**: no segmentation
One	Focus strategy	**Niche marketing**: focus on a small, tightly defined target market (e.g. organic)
Two or more	Differentiated strategy	**Multiple niches**: focus efforts on two or more tightly defined targets
Thousands	Hypersegmentation strategy	**One-to-one marketing**: customize the offer for each individual customers

Please discuss the level of market segmentation of Cadbury

MARKET SEGMENTATION

Demographic

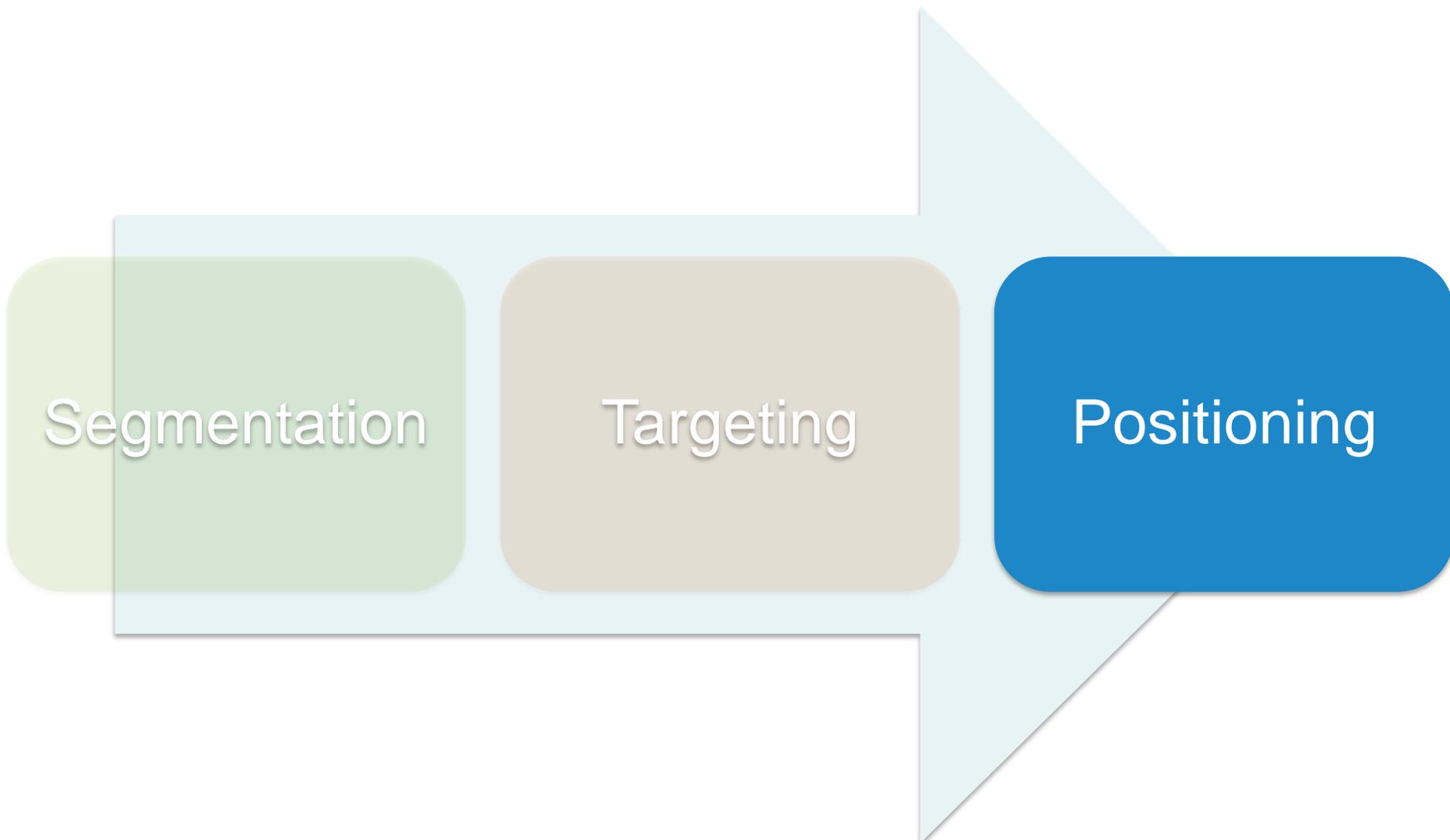| Age & Life Cycle	Gender	Income
• Buyers come under the age group from 2 to 50	• Cadbury is meant for male as well as female	• It is very reasonable and affordable

Factors Affecting Segmentation Strategy

★ Company resources

★ Product variability

★ Product life cycle

★ Market characteristics

★ Competitors' strategies

Marketing Program or Marketing Mix (4Ps⁺)

PLACE
- Retail
- Wholesale
- Mail order
- Internet
- Direct Sales
- Peer to Peer
- Multi-Channel

PRODUCT
- Design
- Technology
- Usefulness
- Convenience
- Value
- Quality
- Packaging
- Branding
- Accessories
- Warranties

PRICE
Strategies:
Skimming
Penetration
Psychological
Cost-Plus
Loss leader, etc.

TARGET MARKET

Physical Environment
- Smart
- Run-down
- Interface
- Comfort
- Facilities

PROMOTION
- Special Offers
- Advertising
- Endorsements
- User trials
- Direct mailing
- Leaflets/posters
- Free gifts
- Competitions
- Joint ventures

Process
- Especially relevant to service industries
- How are services consumed?

People
- Employees
- Management
- Culture
- Customer Service